



Wachovia Wins Limits on Suits Over Le-Nature's Loans (Update1)

By Steven Church

March 29 (Bloomberg) -- A **Wachovia Corp.** unit can't be sued outside of North Carolina for arranging \$160 million in bank loans to Le-Nature's Inc. two months before fraud claims helped force the water bottler into bankruptcy, a judge ruled.

A state judge in Wachovia's hometown of Charlotte gave preliminary approval today to the bank's request to bar lawsuits outside the state by a group of hedge funds that own the right to collect the loans, Wachovia spokeswoman Christy Phillips said. The hedge funds claim the debt will lose value if they can't eventually sue the unit, Wachovia Bank NA, for any role it might have had in the collapse of Le-Nature's.

"We believe these claims are invalid in North Carolina," Wachovia spokeswoman **Christy Phillips** said in a phone interview.

Superior Court Judge Robert C. Ervin agreed with Wachovia's argument that the hedge funds must abide by North Carolina law to settle disputes about the \$160 million in loans, Phillips said. Wachovia argued that the hedge funds only bought the loans so they could sue the bank and blame it for the bottler's demise. North Carolina law bars the sale of a right to file a tort claim, or lawsuit.

Banning lawsuits in the case might disrupt the \$1.7 trillion market for syndicated bank loans, the eight hedge funds, including Harbinger Capital Partners Master Fund I Ltd. and Latigo Partners LP, said in court papers. Investors consider the right to sue a valuable part of any loan contract they buy, the hedge funds said.

Speculator Lawsuits

The funds bought \$160 million of the \$265 million in loans that Wachovia arranged for Le-Nature's. Wachovia agreed that the loans' original owners have rights to sue, unlike speculators who acquired the contracts after the fraud claims became public.

A lawyer for the hedge funds, **Edward Weisfelner** with Brown Rudnick Berlack Israels LLP, wouldn't comment. Officials at Le-Nature's could not be reached for comment.

Hedge funds and other investors who buy loans are watching the case carefully, said Ronald L. Cohen, an attorney with Seward & Kissel LLP in New York. They had assumed this issue was settled in favor of the investors in 2000 when a New York court ruled in a similar case that grew out of Continental Airlines' 1990 bankruptcy.

"It comes as a surprise to see these issues raised in this marketplace," Cohen said.

Under New York law, investors who buy loans or bonds secondhand can sue an underwriter such as Wachovia if they later discover there was a problem with the way the loans or bonds were issued.

Hometown Jurisdiction

When Wachovia syndicated the Le-Nature's loans, it added a requirement that disputes must be resolved under North Carolina law. But the standard contract used to buy such loans in the secondary market says New York law will govern the purchases, Cohen said.

The victory in North Carolina, means investors may think twice about buying Wachovia loans from the secondary market Cohen said.

Wachovia's goal is simply to enforce North Carolina law, not to prevent legitimate trading in bank loans, Phillips said.

The company was as much a victim of the fraud at Latrobe, Pennsylvania-based Le-Nature's as any other company, Phillips said. Le-Nature's was forced into bankruptcy by creditors on Nov. 1.

A judge in Delaware overseeing a shareholder lawsuit removed most of the company's directors and appointed New York- based crisis-management firm Kroll Zolfo Cooper Inc. to run Le- Nature's before the company was forced into bankruptcy.

Jewelry, Secret Safes

Federal investigators working with the U.S. Attorney in Pittsburgh found jewelry and precious stones in safes in secret rooms at Le-Nature's. Kroll Zolfo told a bankruptcy judge in Pittsburgh it had evidence that company officials shredded documents in the days leading up to a change in management.

The state court case is Wachovia Bank NA vs. Harbinger, 6- 5097, General Court of Justice, Charlotte. Le-Nature's bankruptcy case is In Re Le-Nature's, 06-25454, U.S. Bankruptcy Court, Western District of Pennsylvania (Pittsburgh).

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